USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: 01/27/2004

GAIN Report Number: MX4014

Mexico

Livestock and Products

Semi-Annual

2004

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Report Highlights:
Mexico's imports of beef are expected to plummet 80 percent to 100,000 metric tons due to Mexico's decision to ban imports of U.S. beef following the detection of Bovine Spongiform Encephalopathy in the State of Washington. In response, Mexico's 2004 exports of cattle to the United States are forecast to drop by one million head as producers are expected keep their cattle in Mexico in an effort to increase domestic beef production. Pork consumption is forecast higher as retailers are likely to increase the availability of pork in supermarkets. The Government of Mexico has not yet made a decision concerning requests from the Mexican beef and pork industries to respectively impose a safeguard and anti-dumping tariffs on imports.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Live Cattle and Beef:

The forecasts for CY 2004 in this report reflect the current total ban on U.S. live cattle and beef exports to Mexico. This report assumes that the ban will be in place indefinitely.

The closure of Mexico's borders to U.S. cattle and beef on December 24, 2003, following the discovery of a single case of Bovine Spongiform Encephalopathy (BSE) in Washington State could be profitable for Mexico's beef and related industries, at least in the short term. To increase the supply of domestically produced beef, for CY 2004, it's expected that Mexico's cattle industry will retain 80 percent of the approximately 1.25 million head of live cattle that, in the absence of the BSE discovery, were forecast to be exported live to the United States.

Total Mexican beef imports in CY 2004 are expected to be only from non-BSE infected countries, such as New Australia, New Zealand, Nicaragua, Chile, and possibly from certain areas of Uruguay that are free of Foot and Mouth Disease. However, the tonnage will be minimal compared to what was imported from the U.S. in CY 2003. U.S. beef exports to Mexico for CY 2004 are forecast to fall to zero. Therefore, imports for CY 2004 are expected to decline from our previous forecast of 510,000 metric tons to 100,000 metric tons.

Live Hogs and Pork:

The outlook for CY 2004 points to Mexican pork output reaching 1.2 million metric tons, an increase of about 9 percent above the estimated CY 2003 level of 1.1 million metric tons. Inventories are expected to continue building through the first part of CY 2004 before slaughter rates increase to meet anticipated stronger consumer demand due to the BSE situation.

Estimated live hog imports during CY 2003 were 50 percent less than in CY 2002 due to improved productivity from vertically integrated operations that brought domestic swine inventories up during CY 2003, thus reducing the need for imports. With the assumption that pork consumption will increase due to the BSE ban on beef imports from the U.S. and price increases of domestically produced beef, it is expected that 150,000 U.S. and Canadian hogs will be imported live to Mexico during CY 2004, an increase of 25 percent over 2003.

Cattle and Beef

Note: This report assumes that Mexico's December 24, 2003, ban on imports of U.S. beef and live cattle will be in effect indefinitely. See MX4006 for a complete listing of banned products.

More Cattle to Stay in Mexico

Mexico's ban on imports of beef and live cattle is expected to significantly reduce exports of cattle to the United States during 2004. Mexican cattle are typically exported for fattening, finishing, and eventual slaughter in the United States. However, diminished U.S. cattle demand stemming from the loss of beef export markets, coupled with a steep reduction in Mexican imports of beef, is expected to cause Mexican cattlemen to feed and slaughter more of their cattle in Mexico in an effort to increase the supply of domestically produced beef. Mexican cattlemen are still assessing their cattle export potential in light of the ban on imported U.S. beef, but at this stage it appears that there will be a significant drop in cattle exports.

Northern Mexico has been suffering from a drought for several years and Mexican feed compounders are largely reliant on imported corn and soybean meal for their rations, which makes the cost of finishing somewhat higher in Mexico. Consequently, it's expected that cattle staying in Mexico will likely be slaughtered at weights below those typically achieved in U.S. feedlots.

Consumption Expected to Drop Only Slightly

Increases in the slaughter of domestic cattle are expected to enable domestic cattlemen to increase supply in the short term. As a result, overall beef consumption is expected to decline only marginally in 2004. Consumer and media reaction seems to be one of confidence in the safety of Mexican beef. Therefore, beef prices and beef quality, rather than consumer concerns over food safety, are likely to have the primary effect on consumption. Most media reaction has focused on the stated objective of Mexican cattlemen to expand the supply of domestic beef and the "pressure" from the United States to re-open the market.

While there is no published source for timely beef prices in Mexico, average retail prices are up nearly 15 percent, average carcass prices are up 14 percent, and prices in outdoor public market are up about 9 percent. Supermarkets have begun to make more pork and poultry products available to consumers. It's not yet clear if prices for pork and chicken will rise along with beef prices, but poultry prices have increased and it is certainly possible that prices for all meats will be up while the ban is in effect. In response, middle-income consumers are expected to make a modest shift to cheaper pork and poultry and overall meat consumption is expected to increase at a slower rate than in recent years.

Retailers, particularly supermarkets (which sell about 50 percent of the beef consumed in Mexico), accustomed to dealing with the consistent quality and relative ease of handling imported boxed beef, are concerned about the quality of Mexican beef which is typically supplied in whole carcasses with no differentiation by carcass type or weight. Supermarkets will have to pay for unwanted cuts and hire more butchers to process carcasses, adding to the cost of handling domestically produced beef.

Mexico's tourist and restaurant industries relied heavily on U.S. beef and will be hard hit by the ban. Suppliers and distributors are expected to look for alternate foreign suppliers and the domestic market, but will likely have to sacrifice quality, and in some cases do without. Mexico is one of the world's largest consumers of offals and some areas of the country depended on imports for 50 percent of their offals. Reduced offal supplies hit lower income consumers the hardest, many of whom may shift to beans as a protein source.

Trade

The U.S. was the major exporter of beef to Mexico and 2004 beef imports are expected to plummet as a result of the ban. Importers are expected to source limited additional supplies from Canada, Foot and Mouth Disease-free areas of Uruguay, Australia, Nicaragua, Chile, and New Zealand. However, the feeling among importers is that many of these countries will also be supplying other countries that have banned U.S. beef imports and competition for exportable supplies will be stiff.

Mexico's cattle imports dropped during 2003 as lower cattle exports during 2002 led to a greater supply of domestic cattle in 2002. Imports are expected to drop again during 2004 in response to the ban on cattle imports from the United States following the detection of BSE.

Policy

The U.S. government, last year, held WTO consultations on Mexico's anti-dumping procedures as they relate to beef and has requested the formation of a WTO dispute settlement panel to review Mexico's dumping procedures. Mexico's beef industry has petitioned the government for a safeguard investigation of U.S. beef imports. The government has not yet made a decision regarding the industry's request. Furthermore, the NAFTA beef panel decision on the antidumping tariffs has been postponed several times and is now scheduled for March 1, 2004.

Hogs and Pork

Slaughter rates are expected to increase in 2004 in response to the ban on imports of U.S. beef. As a result, ending hog inventories are expected to drop well below the 2003 level. Retailers and consumers are expected to shift to pork to compensate for diminished beef supplies and higher beef prices. Pork consumption is forecast higher and per capita consumption is expected to rise as upper and middle-income consumers shift to cheaper pork in the face of the beef ban.

Imports of live hogs and pork are also forecast higher as producers and retailers seek to increase production and supplies. The United States is expected to continue as the major pork supplier. U.S. pork accounted for 85 percent of the exports to Mexico through late 2003.

The Government of Mexico has not yet made a formal decision concerning the petition from the domestic pork industry to impose anti-dumping tariffs on U.S. exports of pork.

Statistical Tables

PS&D, Animal Numbers, Cattle (1000 Head)

PSD Table						
Country:	Mexico					
Commodity:	CATTLE					
	2002		2003		2004	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2002		01/2003		01/2004	
Total Cattle Beg. Stocks	21296	21296	20519	20519	19524	19524
Dairy Cows Beg. Stocks	2200	2200	2200	2200	2200	2200
Beef Cows Beg. Stocks	11300	11300	11300	11300	11300	11350
Production (Calf Crop)	8800	8800	8900	8900	8900	9100
Intra EC Imports	0	0	0	0	0	0
Other Imports	206	206	150	50	150	10
TOTAL Imports	206	206	150	50	150	10
TOTAL SUPPLY	30302	30302	29569	29469	28574	28634
Intra EC Exports	0	0	0	0	0	0
Other Exports	948	948	1150	1050	1250	250
TOTAL Exports	948	948	1150	1050	1250	250
Cow Slaughter	1600	1600	1600	1600	1600	1800
Calf Slaughter	1600	1600	1600	1600	1600	1800
Other Slaughter	5110	5110	5120	5120	5250	6500
Total Slaughter	8310	8310	8320	8320	8450	10100
Loss	525	525	575	575	600	600
Ending Inventories	20519	20519	19524	19524	18274	17684
TOTAL DISTRIBUTION	30302	30302	29569	29469	28574	28634

PS&D, Meat, Beef and Veal (1000 Head) (K Metric Tons)

PSD Table						
Country:	Mexico				Conversion factor for CWE 1.36	
Commodity:	Cattle, MEAT, BEEF and VEAL					
	2002		2003		2004	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2002		01/2003		01/2004	
Slaughter (Reference)	8310	8310	8320	8320	8450	10100
Beginning Stocks	0	0	0	0	0	0
Production	1930	1930	1950	1950	1960	2300
Intra EC Imports	0	0	0	0	0	0
Other Imports	489	489	500	500	510	100
TOTAL Imports	489	489	500	500	510	100
TOTAL SUPPLY	2419	2419	2450	2450	2470	2400
Intra EC Exports	0	0	0	0	0	0
Other Exports	10	10	12	12	10	10
TOTAL Exports	10	10	12	12	10	10
Human Dom. Consumption	2389	2389	2418	2418	2440	2370
Other Use, Losses	20	20	20	20	20	20
TOTAL Dom. Consumption	2409	2409	2438	2438	2460	2390
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2419	2419	2450	2450	2470	2400

Animal Numbers, Swine (1000 Head)

PSD Table						
Country:	Mexico					
Commodity:	Swine					
	2002		2003		2004	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2002		01/2003		01/2004	
TOTAL Beginning Stocks	10569	10569	10700	10700	10755	10755
Sow Beginning Stocks	920	920	925	925	930	930
Production (Pig Crop)	15250	15250	15300	15300	15350	15350
Intra EC Imports	0	0	0	0	0	0
Other Imports	246	246	120	120	120	150
TOTAL Imports	246	246	120	120	120	150
TOTAL SUPPLY	26065	26065	26120	26120	26225	26255
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Sow Slaughter	15	15	15	15	15	15
OTHER SLAUGHTER	13850	13850	13850	13850	13900	14500
Total Slaughter	13865	13865	13865	13865	13915	14515
Loss	1500	1500	1500	1500	1520	1520
Ending Inventories	10700	10700	10755	10755	10790	10220
TOTAL DISTRIBUTION	26065	26065	26120	26120	26225	26255

PS&D, Meat, Swine (1000 Head) (K Metric Tons)

PSD Table						
Country:	Mexico				Conversion factor for CWE 1.3	
Commodity:	Swine, MEAT					
	2002		2003		2004	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2002		01/2003		01/2004	
Slaughter (Reference)	13865	13865	13865	13865	13915	14515
Beginning Stocks	0	0	0	0	0	0
Production	1085	1085	1100	1100	1110	1200
Intra EC Imports	0	0	0	0	0	0
Other Imports	325	325	335	335	345	350
TOTAL Imports	325	325	335	335	345	350
TOTAL SUPPLY	1410	1410	1435	1435	1455	1550
Intra EC Exports	0	0	0	0	0	0
Other Exports	61	61	60	60	60	60
TOTAL Exports	61	61	60	60	60	60
Human Dom. Consumption	1349	1349	1375	1375	1395	1490
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	1349	1349	1375	1375	1395	1490
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	1410	1410	1435	1435	1455	1550

Grass Fed Live Steer Average Wholesale Prices in Mexico City
(US$/Lb.)

Month	2002	2003	% Change
January	0.731	0.738	0.95
February	0.732	0.738	0.81
March	0.735	0.737	0.27
April	0.736	0.736	0
May	0.740	0.742	0.27
June	0.740	0.742	0.27
July	0.738	0.740	0.20
August	0.736	0.738	0.27
September	0.736	0.738	0.27
October	0.738	0.740	0.27
November	0.740	0.742	0.27
December	0.741	0.743	0.26

Source: National Market Information Service (SNIM)

Beef Carcass Average Wholesale Prices in Mexico City
(US$/Lb.)

Month	2002	2003	% Change
January	1.17	1.17	0
February	1.18	1.19	0.84
March	1.18	1.20	1.69
April	1.17	1.20	2.56
May	1.16	1.20	3.44
June	1.18	1.19	0.84
July	1.18	1.19	0.84
August	1.17	1.18	0.85
September	1.16	1.18	1.72
October	1.16	1.19	2.58
November	1.18	1.20	1.69
December	1.19	1.22	2.52

Source: National Market Information Service (SNIM

Finished Live Hog Wholesale Prices in Mexico City
(US$/Lb.)

Month	2002	2003	% Change
January	0.650	0.599	(8.51)
February	0.581	0.588	1.20
March	0.554	0.571	3.06
April	0.547	0.551	0.73
May	0.550	0.551	0.18
June	0.554	0.555	0.18
July	0.557	0.559	0.35
August	0.552	0.559	1.26
September	0.553	0.562	1.62
October	0.567	0.569	0.35
November	0.588	0.593	0.85
December	0.590	0.610	3.38

Source: National Market Information Service (SNIM)

Pork Carcass Average Wholesale Prices in Mexico City
(US$/Lb.)

Month	2002	2003	% Change
January	0.998	0.864	(15.50)
February	0.927	0.865	(7.16)
March	0.931	0.865	(7.63)
April	0.898	0.869	(3.33)
May	0.836	0.867	3.70
June	0.838	0.867	3.46
July	0.840	0.870	3.57
August	0.840	0.870	3.57
September	0.842	0.873	3.68
October	0.842	0.873	3.68
November	0.849	0.894	5.30
December	0.857	0.913	6.53

Source: National Market Information Service (SNIM)